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International challenges for sustainable development: global policy coherence and the role of the United Nations

Report of the Secretary-General

Summary

The present report is prepared pursuant to General Assembly resolution 65/167, entitled "Towards a New International Economic Order". It reviews recent trends in the areas of trade, financial flows and international migration to illustrate the growing interdependence in the world economy. In the report it is argued that persistent imbalances in the areas of international trade, technology transfer and international finance require urgent policy attention if the goal of equitable and inclusive economic growth and sustainable development is to be achieved in the coming decades. The lack of agreement to close the Doha Round of negotiations remains the largest gap in improving international market access to developing countries. Improved facilitation of technology transfer is needed to provide developing countries affordable access to new technologies to support sustainable strategies. The recent financial and economic crises have emphasized the need for public oversight of the financial system and greater cooperation in strengthening the global financial safety nets to provide adequate international liquidity to cope with shocks. Deficits in accountability and representation in several of the institutions of global economic governance will need to be addressed in order to strengthen the legitimacy and effectiveness of global governance. The United Nations, as the principal platform for Governments to discuss and solve global social and environmental problems, has a fundamental role to play in global economic governance. The United Nations system should be strengthened in order to more effectively exercise this role.

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I. Introduction

1. The Declaration on the Establishment of a New International Economic Order, adopted by the General Assembly at its sixth special session, held in 1974 (resolution 3201 (S-VI)), was a call for shared and differentiated responsibility for equitable development for all. In it, Member States called for an economic order "which shall correct inequalities and redress existing injustices, [and] make it possible to eliminate the widening gap between the developed and the developing countries and ensure steadily accelerating economic and social development and peace and justice for present and future generations". The Programme of Action on the Establishment of a New International Economic Order (resolution 3202 (S-VI)) called for the sovereign equality of States, while granting preferential and non-reciprocal treatment for developing countries, and adopting special measures for the least developed countries, whenever possible.

2. The global economy has changed dramatically since the adoption of the Declaration in 1974. It has become much more integrated, while markets have been deregulated. Emerging economies have grown rapidly, shifting the global balance of economic power. While these economies have experienced "convergence" towards the living standards of developed countries, many other countries have fallen further behind. The latter is one symptom of still-widening global inequalities. Increased human activity has put increasing pressure on the Earth's natural environment. Climate change is threatening material progress in all nations, but in particular that of many developing countries vulnerable to variable weather conditions, rising seawater levels and other environmental threats. Global demographic trends — including migration, urbanization and population ageing — are posing additional challenges, with international ramifications.

3. Deeper economic integration is visible in ever-increasing trade flows of goods and services, cross-border investments and capital flows, and greater labour mobility. These developments have been fuelled by trade and capital-account liberalization, technological progress (including in transport and communications) and changing production patterns through global value changes. Technological change and growing trade have provided added economic growth opportunities for developing countries, and some countries, such as China and the new industrial countries of East Asia, took advantage of these opportunities as they integrated into the global economy.

4. The rapid growth of their economies has also contributed to a decline in global poverty. The proportion of people living on less than $1.25 a day fell from 47 per cent in 1990 to 24 per cent globally in 2008 — a reduction from over 2 billion people to less than 1.4 billion. In China, the poverty rate fell from 60 per cent to 13 per cent in this period.[1] However, progress on that front has been uneven. Poverty remains widespread in sub-Saharan Africa and Southern Asia, and as these regions have fallen further behind, global inequality has increased. Some 200 million people globally are unemployed, and a further 900 million workers live with their

[1] See *Millennium Development Goals Report 2012* (United Nations publication, Sales No. E.12.I.4).

families below the $2 a day poverty line.[2] Redressing this trend in global economic divergence so as to prevent its becoming a source of new tension and insecurity will be a major challenge in the decades ahead.

5. The increasing role of foreign direct investment (FDI) and global value chains in driving production, trade and technology development has reduced the policy space for national Governments. Existing multilateral trade rules have limited some of the national policy space for developing countries, in particular in the use of measures supporting the development of domestic industries and productive capacity, which in many contexts are critical for the promotion of economic diversification and the development of local entrepreneurial capacity.

6. Greater interdependence has also increased the vulnerability of developing countries to external shocks. The global financial crisis of 2008 and the resulting economic crisis in developed countries has had a negative impact on developing countries through reduced export opportunities and enhanced volatility in capital flows and commodity prices. Official development assistance (ODA), an important source of development finance to many low-income countries, has also been volatile from the perspective of recipient countries[3] and, most recently, fiscal retrenchment in many donor countries has led to cuts in ODA disbursements.[4] Global unemployment increased and millions more are either underemployed or in vulnerable employment. Similarly, the food and fuel crises of 2007 and 2008 demonstrated how problems originating in some parts of the globe have strongly and adversely affected developing countries in particular.

7. The greater vulnerability to economic shocks is mirrored by the increasing frequency and intensity of extreme weather events such as floods and draughts caused by climate change. Shifting weather patterns threaten traditional agricultural practices and food security, rising temperatures accelerate desertification, and rising sea levels increase the risk of catastrophic floods. There is evidence that additional planetary boundaries such as biodiversity loss and ocean acidification have been breached as well, leading to potentially catastrophic changes in ecosystems. Developing countries, and the poor in particular, are least able to cope with these changes and are thus most vulnerable to the risks emanating from climate change.

8. Demographic changes in the coming decades will strongly influence increasing global interdependence. By 2050, the global economy would need to be able to provide a decent living for more than 9 billion people, of which 85 per cent will be living in developing countries. Progress in human development worldwide has helped to drastically reduce mortality rates and allow people to live longer. As a result, the world population is ageing rapidly. By 2050, one in four persons living in developed countries, and one in seven in what are now developing countries, will be over 65 years of age. This will increase the pressure on the financial viability of pension and health systems.

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[2] International Labour Organization, *Global Employment Trends 2012: Preventing a deeper jobs crisis* (Geneva, 2012), available from http://www.ilo.org/global/research/global-reports/global-employment-trends/WCMS_171571/lang--en/index.htm.

[3] See, for example, *World Economic and Social Survey 2010: Retooling Global Development* (United Nations publication, Sales No. E.10.II.C.1), chap. III.

[4] In 2011, ODA decreased in real terms.

9. The presence of declining and ageing populations in developed regions and persistent inequalities between countries may result in much larger migration flows than occur today.[5] International migration is already a growing phenomenon, affecting almost all countries in the world. Estimates suggest that there were some 214 million migrants worldwide in 2010, representing 3 per cent of the total global population.[6] With most of the expected future population growth to happen in least developed countries, migratory pressure is likely to increase.

10. To address these challenges, while still realizing the benefits of globalization, a coherent global policy response will be necessary. Though the global economic environment has changed substantially since 1974, the Declaration and the Programme of Action on the Establishment of a New International Economic Order may still provide a meaningful framework for such a response.

11. The Declaration highlights persistent inequalities perpetuated by the international economic order that had prevented the balanced development of the international community, as well as the vulnerability of developing countries to external shocks in an increasingly interdependent world. The Programme of Action recommended specific measures to address these challenges, including the stabilization of commodity prices by setting up international commodity buffers, improved market access and the implementation of a generalized system of preferences for developing country exports, stabilization of the international monetary system, and a better representation of developing countries in global governance institutions.

12. Many aspects of the Programme of Action were, however, never implemented. Almost four decades after the adoption of the Declaration and the Programme of Action, many developing countries still rely on raw material exports and are vulnerable to increasing volatility in raw material prices. Financial liberalization has led to increased risks, as well as a net outflow of capital from developing countries. Financial crises have become increasingly frequent and widespread in their impact. The resulting accumulation of foreign reserves in the developing world — to protect against financial shocks — has in turn contributed to global macroeconomic imbalances, while also preventing these resources from being used for productive investments. The representation of developing countries in global governance, while improved for some middle-income countries, has not improved for the majority of developing countries.

13. The global financial crisis and the ensuing global recession have led to renewed calls for rethinking global economic governance. The additional threat posed by climate change and demographic challenges, and the huge financing needs for climate change adaptation and mitigation only lend greater urgency to these calls.

14. The present report will lay out some possible directions for establishing a global economic order that effectively and coherently manages global interdependence, contributes to overcoming asymmetries in global economic

[5] *World Economic and Social Survey 2010: Retooling Global Development* (United Nations publication, Sales No. E.10.II.C.1), chap. I.

[6] United Nations, Department of Economic and Social Affairs, Population Division, "Trends in international migrant stock: migrants by age and sex", United Nations database, POP/DB/MIG/Stock/Rev.2010 (available from esa.un.org/MigAge/).

relations and creates the preconditions for sustainable development. In section II, various vehicles of uneven globalization and the challenges they pose for sustained, equitable and inclusive growth are discussed. In section III, reforms to global governance in the areas of trade, technology and finance to address the challenges and overcome uneven globalization are discussed. In sections IV and V, gaps and shortcomings are identified, and options are laid out for a coherent global governance regime and the role of the United Nations in such a regime to achieve sustained, equitable and inclusive growth. The conclusions are set out in section VI.

II. Vehicles of unbalanced globalization and challenges for sustained, equitable and inclusive growth

15. Three important vehicles of unbalanced globalization are international trade, technology transfer and the development of new technologies, and international finance. Global governance in these areas has not kept pace with globalization, with the result that their expansion has not always benefited developing countries.

International trade

16. Global trade has expanded dramatically in recent decades. World exports have increased fivefold since 1980, and developing countries have played an important role in the overall expansion. This expansion was caused by a progressive reduction in barriers to trade and by changing global production patterns. A significant portion of the measured rise in trade volumes is accounted for by increasing trade in intermediate goods, in line with the worldwide trend towards delivering goods and services through global value chains.[7] Transnational corporations and global value or supply chains increasingly dominate global production, and these companies play a major and growing role in the world economy.

17. Another factor behind the observed expansion of world trade has been the increase in international outsourcing and offshoring of services, facilitated by radical innovations in communications technology. In summary, trade patterns have moved from country specialization in terms of goods — with manufacturing concentrated in the North and production of primary commodities in the South — to intra-firm and network specialization in terms of tasks, with the South gaining considerable advantage in the production of manufactures.

18. Trade liberalization has facilitated this process. It was promoted as part of market-oriented reforms in developing countries in the 1980s and 1990s. Developing countries participated actively in the Uruguay Round and the creation of the World Trade Organization. They accepted important concessions, opening their markets and accepting a wide range of concrete obligations, requiring changes to domestic laws that conflicted with membership obligations, which have made the multilateral trading system more restrictive.

19. The multilateral framework still allows certain types of subsidies and flexibility in imposing tariffs to support domestic producers. However, the rise of bilateral and regional trade agreements has had the effect of restricting some of

[7] World Trade Organization, *International Trade Statistics 2009* (Geneva, 2009).

these flexibilities, further eroding the policy space available to developing countries. Since the early 1990s and in the light of the slow progress of the Doha Round negotiations, developed countries have pursued bilateral and regional trade agreements with developing countries. In many cases, these agreements impose binding obligations on the contracting parties with regard to investment liberalization and protection, as well as competition policy and government procurement, thus further curbing or prohibiting government policies that encourage local firms or the domestic economy.[8]

20. Likely driven in part by the pattern of trade liberalization and unsuccessful national policy efforts, many developing countries have not managed to overcome their heavy reliance on primary exports and reduce vulnerability to global market volatility. During the 2000s, the share of primary commodities and natural resource-based manufactures in total exports even increased in South America and sub-Saharan Africa compared with the previous decade.[9]

21. Despite recent increases in commodity prices, there has been a decline in the terms of trade of tropical agricultural products, and generic manufactures have been experiencing worsening terms of trade as well. This underscores the importance of achieving structural transformation towards more diversified export and production structures.

22. Countries that benefited the most from trade — notably China and the newly industrializing countries in East Asia — systematically followed a pragmatic approach that combined a gradual exposure to external markets with an effective collaboration between the private and the public sector towards building dynamic long-term competitiveness. Yet, many of the strategies which these countries utilized successfully to ensure that support was given to those enterprises that were able to compete in international markets would no longer be allowed under existing trade rules.

23. In summary, resolving the conflict between economic development and the principle of non-discrimination in the trading system has been difficult. The Doha Round was to place the needs and interests of developing countries at the heart of the agenda, but negotiations have stalled because of disagreements about how to apply in practice the principle of common-but-differentiated rules-setting. Existing multilateral trading rules constitute hurdles to technology transfers, rendering the development of industries using green technologies more expensive.

Technology transfer

24. Technology is a critical input to development. Economic growth is driven to an important extent by technological innovations. The social and economic transformation that allowed for the advanced standard of living in developed countries today was made possible by technological change.

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[8] Kenneth Shadlen, "Policy space for development in the WTO and beyond: the case of intellectual property rights", Global Development and Environment Institute Working Paper, No. 05-06 (Medford, Massachusetts: Tufts University, 2005).

[9] *World Economic and Social Survey 2010: Retooling Global Development* (United Nations publication, Sales No. E.10.II.C.1), chap. IV.

25. Globalization has led to the rapid spread of information and communications technologies around the world. However, the digital divide between developed and developing countries remains vast. At the same time, the challenges of climate change and disaster risk management require significantly accelerated technological progress and enhanced technology transfer to make technology available to people in developing countries at an affordable cost.[10]

26. In developing countries, innovation is not a matter of pushing back the frontier of global knowledge. Rather, innovation consists of facilitating the use of existing knowledge and new technology in a domestic context. Research and development activities thus consist of the creation of knowledge, but also, and perhaps more importantly, of acquisition, adaptation, dissemination and use in local settings.[11]

27. The World Trade Organization (WTO) Agreement on Trade-Related Aspects of Intellectual Property Rights introduced intellectual property rules into the multilateral trading system for the first time. Since then, strengthened intellectual property rights have raised the costs of acquiring technology, reduced technology transfers, and therefore negatively impacted developing countries. The Agreement includes so-called flexibilities, which allow developing countries to use norms compatible with the Agreement in a way that enables them to take measures to promote economic development or pursue their own public policies in specific fields, such as access to essential medicines. However, the use of the flexibilities by developing countries is still limited. Furthermore, developed countries have recently been including even more stringent requirements under the Agreement in bilateral and regional trade agreements.

28. Putting global development on a sustainable path will require greening economic growth and poverty eradication. The attainment of technological progress will be essential in this respect. This new technological revolution has to overcome the dependence on fossil fuels and non-biodegradables, and will require global cooperation. Currently, the majority of new green technologies are owned by developed countries. Significant reforms are needed to facilitate the ability of developing countries to incorporate green technological development into their own national development strategies.

International finance

29. Financial liberalization and deregulation have been increasingly promoted throughout the world. Financial liberalization was supposed to improve the allocation of scarce resources and thus promote investment and growth. However, there is no unambiguous evidence of faster economic growth in countries that have pursued financial liberalization. Instead, financial liberalization has been associated with greater macroeconomic instability and rising inequalities.[12]

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[10] *MDG Gap Task Force Report 2012: The Global Partnership for Development — Making Rhetoric a Reality* (United Nations publication, Sales No. E.12.I.5).

[11] Carl Dahlmann, "Technology, globalization, and international competitiveness: challenges for developing countries", in David O'Connor and Monica Kjöllerström, eds., *Industrial Development for the 21st Century: Sustainable Development Perspectives* (New York: United Nations, 2007).

[12] Joseph E. Stiglitz and others, *Stability with Growth: Macroeconomics, Liberalization and Development* (New York: Oxford University Press, 2006).

30. Managing the macroeconomic volatility induced by financial market liberalization is a major challenge for policymakers in emerging markets and developing countries. Waves of short-term capital inflows, which tend to be highly speculative in nature and are often in excess of an economy's absorptive capacity, complicate macroeconomic management and carry risks for financial and economic stability. They may lead to exchange-rate overshooting, inflation, and credit and asset price bubbles. More importantly, there is a risk of sudden stops and withdrawals of international capital, owing to a rise in global risk aversion, which contribute to spreading financial crises. Such conditions provide great uncertainty to investors and undermine long-term growth and development efforts.

31. FDI in developing countries has tended to be more stable than other types of private capital flows. However, FDI remains concentrated in a few regions and countries. Approximately 70 per cent of FDI is in East and South Asia (primarily in China and India) and Latin America and the Caribbean (with approximately half invested in Brazil). Furthermore, in regions with greater proportions of FDI, there is growing evidence that such investment has become more "financialized" — meaning that there is less investment in "green-field" direct investment, which creates new economic capacity, and more investment in financial companies or in intra-company debt.[13] Similarly, privatizations and mergers and acquisitions are categorized as FDI, though they often represent an ownership transfer rather than new investment.

32. Policymakers in many developing countries have responded to rising global risks by accumulating enormous international reserves as a form of "self-insurance". In 2011, countries with emerging economies and other developing countries are estimated to have accumulated an additional $1.1 trillion in foreign-exchange reserves, bringing total reserves to about $7 trillion.[14] However, such reserve accumulation has had the effect of exacerbating global imbalances. Furthermore, the strategy of building up international reserves is costly for developing countries, particularly in terms of the opportunity cost of forgone domestic investment. A large share of international reserves is invested in low-yielding United States Treasury securities, implying a net transfer of resources from poorer countries to wealthier ones.

33. Given the volatility associated with international flows, domestic resource mobilization, including household savings, is generally perceived to be a superior form of financing, with domestic tax revenues being the most important form of public financing. Other sources, including remittances, and the work of private philanthropic organizations have also gained importance in recent years.

34. Nonetheless, official development assistance (ODA) and other forms of international public financing remain crucial, not only for making up the gaps in domestic financing, but also for addressing global challenges, such as climate change. The ongoing sovereign debt crisis in Europe and the uneven global recovery have affected ODA and other forms of official flows, which have been impacted by

[13] United Nations Conference on Trade and Development, *World Investment Report 2011: Non-Equity Modes of International Production and Development* (United Nations publication, Sales No. E.11.II.D.2).

[14] *World Economic Situation and Prospects 2012* (United Nations publication, Sales No. E.12.II.C.2), chap. I.

greater fiscal austerity. Aid flows declined in real terms in 2011 for the first time in many years.

35. Volatility induced by financial market liberalization has led to frequent financial crises, heightened unemployment, and inequality in both developed and developing countries,[10] whereas managing such volatility has become increasingly difficult. At the same time, there is a need for additional and predictable public financing for development and other global challenges, such as climate change adaptation and mitigation. Reforms of the international financial system should focus on reducing risk and volatility of both private and official flows, while maintaining policy space for developing countries and ensuring adequate financing for development.

III. Reforming global economic governance for inclusive and sustainable development

36. In order to repair the key deficiencies in existing governance arrangements in the areas of trade, technology and international finance, major reforms would be needed in order to establish global economic governance mechanisms that are better suited to manage global interdependence and eliminate the asymmetries embedded in existing mechanisms. The reforms to be considered not only refer to the specific areas of governance of international trade, technology transfer and finance, but importantly also reforms need to seek greater coherence across those areas, as well as with other international frameworks, such as multilateral environmental agreements, and fill gaps in areas where multilateral frameworks are presently absent, such as in the area of international migration.

Reforming the international trade regime

37. In recent decades, the approach to trade liberalization has followed a pattern of advancing countries' common responsibilities, while paying insufficient attention to the differentiated responsibilities of economies with more limited capabilities for gainfully integrating in the global trading system. Given the differences in national development, developing countries have thus far not been able to achieve their aspirations to secure development policy space within a multilateral trading system that upholds non-discrimination as a core principle.

38. The current round of trade negotiations at WTO, the so-called Doha Round, is meant to be one of the main vehicles for advancing progress towards a fairer multilateral trading system that delivers more benefits to developing countries. However, major differences in opinion between developed and developing countries and, more specifically, disagreement on what constitutes a fair distribution of rights and obligations within the global trading system have led to an impasse in negotiations.[10]

39. As a result, the effective implementation of a development agenda, which provides a special and differentiated space to developing countries, has yet to occur. Policy coherence between trade policies and development policies, and trade policies and the climate agenda has to be achieved.

40. In order to achieve their development goals, developing countries will have to industrialize, and industrial policies will therefore be an important part of their development policies. Infant industry protection, export subsidies, direct credit schemes and local content rules have all been key ingredients of successful development in East Asia. While some of these policies are still feasible, the multilateral trading system has become more restrictive. For example, subsidies conditional on export performance are prohibited, preventing an incentive policy directly related to international competitiveness. One important reform will be to treat developing countries in a differentiated way to allow the use of subsidies and other mechanisms in support of export industries.

41. The changing patterns of trade and production described above further limited space for industrialization strategies. In order to overcome the fundamentally unequal relationship between large international firms and small producers, developing countries need to cooperate to deal with anti-competitive conduct, improve tax coordination and control transfer pricing more effectively. Rather than competing among countries through tax incentives and decreases in regulatory requirements, countries are better served by establishing mechanisms of cooperation and information exchange. Providing oversight over global value chains and transnational corporations would fill a critical gap in international governance.[15]

42. Trade policies and the multilateral trade regime have to be consistent with climate policies. Trade is an important aspect of the climate agenda because environmental technologies and know-how are generated primarily in developed countries and transferred through embodied technologies in imported goods and services, FDI or licensing. There is also a risk that climate objectives would be translated into protectionism. Instead of trade-related environmental measures, technology transfer should be a priority. Existing flexibilities in the Agreement on Trade-Related Aspects of Intellectual Property Rights might be insufficient, and the exclusion of critical sectors from patenting or the establishment of a global technology pool for climate change merit serious consideration.

Reforming the international technology regime

43. There is a need for a more development-friendly international technological regime. Most importantly, a publicly led, global technology-sharing regime and networks of international technology research centres would be critical steps towards sharing the technology necessary to combat climate change.

44. Since 1992, pursuant to the adoption of Agenda 21, one of the outcomes of the United Nations Conference on Environment and Development held in Rio de Janeiro, Brazil, proposals to reorient the global technological regime towards diffusion shaped by public goals have been justified on the grounds of poverty eradication and environmental sustainability. The Technology Mechanism was established by the Conference of the Parties to the United Nations Framework Convention on Climate Change at its sixteenth session, held in Cancun, Mexico, to enhance international technology cooperation on climate change. In the outcome document of the 2012 United Nations Conference on Sustainable Development

[15] *World Economic and Social Survey 2010: Retooling Global Development* (United Nations publication, Sales No. E.10.II.C.1).

(Rio+20), world leaders requested United Nations system agencies to examine options for a technology facilitation mechanism that would contribute to bridging the technology gaps between developed and developing countries, with a particular focus on environmentally sound technologies (see General Assembly resolution 66/288, annex, para. 273). To deliver on this commitment, an international regime for technology sharing will have to be established, and, as indicated, the intellectual property rights regime (Agreement on Trade-Related Aspects of Intellectual Property Rights) will have to be oriented towards stimulating innovation of green technologies. Technology transfer will have to be complemented by measures in the multilateral trade system and by providing sufficient financing for climate change adaptation and mitigation.

45. There are limited precedents for publicly guided international mechanisms of technological diffusion, but the international public policymaking capability can draw upon existing international scientific networks such as the Intergovernmental Panel on Climate Change. The Consultative Group on International Agricultural Research provides a successful example of rapidly diffusing new agricultural technologies through a publicly supported global and regional network of research institutions. The 1987 Montreal Protocol on Substances that Deplete the Ozone Layer[16] successfully provided a global framework for sovereign States to move away from polluting technologies. Critically, it contained special support for developing countries in adapting new technologies, including the creation of a financing pool funded by developed countries, but governed jointly by contributing and beneficiary countries.[17]

Reforming the international finance regime

46. In order to address the greater macroeconomic instability and rising inequalities associated with financial liberalization, policy changes at the national and global levels will be necessary. Capital account regulations and the countercyclical, macroprudential risk management of domestic financial sectors will have to be complemented by reforms of the international financial architecture. Lastly, international public finance will continue to play an important role in addressing global challenges.

47. Policymakers in many developing and emerging market countries have begun to look to capital account regulations to help in managing volatile capital inflows and increasing domestic policy space. Capital account management has recently gained greater acceptance as a prudent policy measure. The International Monetary Fund (IMF), which recommended against the use of capital controls in the 1990s, has since acknowledged that capital flow management can help to reduce the volatility associated with international flows under certain conditions.[18] Capital account regulations should be an essential part of a broader countercyclical, macroprudential risk management of the domestic financial sector that should not be viewed any differently than regulation of domestic risks. Such regulations — which

[16] United Nations, *Treaty Series*, vol. 1522, No. 26369.

[17] *World Economic and Social Survey 2011: The Great Green Technological Transformation* (United Nations publication, Sales No. E.11.II.C.1), chap. VI.

[18] Jonathan D. Ostry and others, "Capital inflows: the role of controls", IMF Staff Position Note, No. 10/04 (Washington, D.C.: International Monetary Fund, 2010).

include both price and quantity regulations on either inflows or outflows, including taxes, reserve requirements, minimum investment periods and quantitative limits on certain types of cross-border capital transactions — directly target capital flows, whereas macrotools focus on overall economic variables and the domestic regulatory framework.

48. The interconnectedness of excessive risk-taking in financial markets with the global imbalances, vast dollar-reserve accumulation, volatile commodity prices and declining productive investments explains why the 2008-2009 global financial crisis has been systemic and somewhat synchronized worldwide. Following the crisis, the international community has taken steps to strengthen the global financial system through regulatory reforms. However, these reforms do not adequately address risks in the international financial system, including their impact on developing countries.

49. The recent crises have emphasized the need for improved regulations and public oversight of the financial system. Yet much of the existing international financial architecture still relies on private organizations. Accounting standards are determined in the private International Accounting Standard Board, whose activities are mainly financed by large global accounting firms. The international coordination of equity market regulation is dependent on the deliberations of the International Organization of Securities Commissions. There is also a need to improve private oversight over credit ratings agencies. As discussed in the *World Economic and Social Survey 2010: Retooling Global Development*,[10] one solution could be to establish an independent international process overseeing international financial regulatory mechanisms.

50. As the European sovereign debt crisis makes clear, another missing element in the international financial architecture is a framework for sovereign debt restructuring. Such a framework is critical to developing a stable international financial system. The existing ad hoc and piecemeal approaches to both public sector and market-based sovereign debt restructuring have been inefficient and costly, especially for developing countries. Workouts often take place with undue lags that prolong distress and economic hardship; and the solutions, whether for official or private sector debt, often do not provide enough debt relief to give debtor countries a "fresh start" in returning to growth.[10]

51. The need for additional and more predictable public financing — in particular to finance the response to climate change — has led to a search for new and innovative sources of international public financing, complementing traditional aid. According to the *World Economic and Social Survey 2012: In Search of New Development Finance*,[19] approximately $400 billion per year could be raised through international taxes on financial and currency transactions, carbon emissions and the use of the IMF special drawing rights (SDRs). Each of these options is technically feasible and economically sensible, but realizing the potential of these mechanisms will require international agreement and the corresponding political will, both to tap sources as well as to ensure the allocation of revenues for development. The design of appropriate governance and allocation mechanisms is crucial for innovative financing to ultimately meet development needs and contribute to financing the post-2015 development agenda.

[19] United Nations publication, Sales No. 12.II.C.1.

52. One such innovative mechanism — increased allocations of SDRs — was used during the recent financial crisis as an important tool to fund IMF emergency financing. While such cooperative efforts during the crisis have strengthened the global financial safety net, important issues remain regarding the sufficiency and composition of international liquidity support.

53. Sustained SDR allocations could provide a low-cost alternative to the accumulation of international reserves, and thus reduce the need for precautionary reserve accumulation.[20] This, however, would require an accelerated quota reform of IMF to give emerging market and other developing economies greater voice.[21]

54. The global financial safety net can also be strengthened through closer cooperation with regional and subregional mechanisms, such as the Arab Monetary Fund, the Chiang-Mai Initiative, the financial stabilization facilities of the euro-area countries, and the Latin American Reserve Fund. Most of these mechanisms have provided crisis liquidity during the recent economic and financial crisis, partly in conjunction with IMF programmes

IV. Implications for institutions of global governance

55. The world has changed enormously since the current system of global governance was put together with the founding of the United Nations and the creation of the International Monetary Fund, the World Bank and the General Agreement on Tariffs and Trade. While the governance system has not stood still, adjustments have not kept pace with increasing interdependence among national economies through trade, finance, the environment and international migration. In the Monterrey Consensus of the International Conference on Financing for Development,[22] world leaders called for the modernization of the governance structures of global institutions to be more consonant with the fundamentally changed structure of the global economy, which reflects the much greater weight of developing countries.

56. The earlier part of the present report laid out gaps in the international architecture in these areas. In addition, there are significant inadequacies in the global coordination of economic decision-making, including conflicting agendas and rules. Global governance in economic and social areas features a highly decentralized system made up of many intergovernmental organizations with varied compositions, structures and purposes. Individual agencies take critical decisions within their areas of expertise in line with their own governance rules. Although there are benefits to such specialization, the proliferation of the agendas of existing institutions is a key source of system incoherence. In order to eliminate costly

[20] SDR allocations are also a potential source of development finance since the "seigniorage" related to additional demand for global currencies accrues to IMF Member States. See the *World Economic and Social Survey 2012: In Search of New Development Finance* for a discussion of the use of SDRs for development finance.

[21] Additional systemic reforms to the international reserve system are needed, as discussed in the *World Economic and Social Survey 2010: Retooling Global Development* (United Nations publication, Sales No. E.10.II.C.1).

[22] *Report of the International Conference on Financing for Development, Monterrey, Mexico, 18-22 March 2002* (United Nations publication, Sales No. E.02.II.A.7), chap. I, resolution 1, annex.

duplication and conflicting policy agendas, there is a need to define more precisely the roles of existing institutions, and for these institutions to refocus their existing activities on core competencies — a process that has already begun, but that needs to be accelerated.

57. The World Trade Organization was the first international enforcement system on economic matters. It has a dispute mechanism that sanctions violations of international disciplines through trade measures. Negotiations over trade-related issues have extended the WTO agenda to overlap with other agencies, especially in relation to financial flows. Most trade-related issues that have occupied the dispute settlement mechanisms at WTO, such as intellectual property rights, foreign direct investment and trade in services, are of relevance to developed countries. Issues that are relevant to developing countries have proved more difficult to resolve, as evidenced by the lack of progress to conclude the Doha Round of negotiations, launched with the intention to ensure a larger share of trade to poor developing countries. Similarly, the costs associated with the WTO dispute-settlement process leaves poor countries at a disadvantage. The adoption of a compensatory mechanism for dispute settlement would help to reduce current biases in the enforcement of the multilateral trade rules. Coherence in global governance will require revisiting the scope and implementation of the WTO disciplines.[23]

58. One of the largest gaps in the multilateral system is the absence of adequate mechanisms to regulate the movement of workers across countries, as well as the movement of persons displaced from their countries of origin for various reasons. The International Labour Organization has developed the Multilateral Framework on Labour Migration proceeding from a rights-based approach. While focused more on the rights of migrants, the Multilateral Framework also calls for international cooperation to facilitate both temporary and permanent migration. Until a more favourable situation emerges for permanent immigration, temporary labour flows should be managed in order to enhance global welfare and protect the human rights of workers. International migration entails difficult policy decisions with respect to providing migrants access to social services and social protection and management of the social adjustments required in both sending and receiving countries. Clearly, this is an area where there is need to put in place a more effective mechanism to regulate international migration.[23]

59. The weakness of the global environmental governance regime is another critical gap in global governance. In an effort to remedy this, in the Rio+20 outcome document (see General Assembly resolution 66/288, annex), world leaders have committed to strengthening the United Nations Environment Programme through universal membership and the provision of stable and increased financial resources. At the same time, they have sought to strengthen the broader institutional framework for sustainable development, including by establishing a universal intergovernmental high-level political forum that would absorb and enhance the work of the Commission on Sustainable Development. To give effect to this decision, they agreed to launch an intergovernmental process under the General Assembly to define the format and organizational aspects of the high-level forum. In order to address the critical financing gap, an intergovernmental process under the auspices of the General Assembly will be established, aimed at proposing options on

[23] *World Economic and Social Survey 2010: Retooling Global Development* (United Nations publication, Sales No. E.10.II.C.1), chap. IV.

an effective sustainable development financing strategy. Lastly, they requested relevant United Nations agencies to identify options for a facilitation mechanism that promotes the development, transfer and dissemination of clean and environmentally sound technologies. These processes should contribute to greater effectiveness in global environmental and sustainable development governance, but the added challenge is to ensure coherence with the multilateral regimes for trade, technology transfer and finance.

60. The accountability and representativeness at existing institutions of global governance needs reconsideration. Many existing agencies are part of the United Nations system; yet, accountability for their policies does not extend beyond their membership, which can differ from one agency to another. How countries are represented in these organizations varies widely, ranging from constituency-based systems, such as the executive boards of IMF and the World Bank, to simple one-country-one-vote arrangements, as in WTO and the United Nations General Assembly. In the case of IMF and the World Bank, developing countries are still underrepresented with respect to their present weight in the world economy. Recently proposed reforms (such as quota reforms in favour of developing countries of around 6 per cent in IMF and 4.6 per cent in the World Bank) are being pursued, but progress is slow and they do not offer ample weight to developing countries. For instance, the proposed shifts in voting power to developing and transition countries in the World Bank Group fall significantly short of the recommendation of the High-level Commission on Modernization of the World Bank Group Governance, which states that voting power in the World Bank should be evenly split between developed and developing countries.[24] Forthright voting reforms in the World Bank and the Fund are critical because their constituency-based systems, enhanced by a system of basic votes, provide a stake in the organizations for the smallest economies, and could be an important model for other international institutions. As a general rule, voting distributions should be appropriate to the purpose of the organization.

61. In addition to issues of representation, achieving greater inter-agency collaboration continues to be a challenge. The lack of coordination and cooperation have meant that decisions on growth, finance, trade, employment and other issues are not always consistent with one another. At present, there is no international agency dealing systematically with questions of coherence and consistency in multilateral rules-setting.

62. The emergence of the Group of Twenty (G20) as a self-anointed, self-selected grouping arranged to oversee economic recovery and reform has raised many questions about the role of these kinds of caucuses in global governance. Caucuses' limited memberships are often seen as necessary for the taking of timely decisions that can be enforced by economic players having the actual power to do so. This criterion of effectiveness in reaching enforceable decisions should indeed be one basis on which all groupings must be judged. In terms of this criterion, the G20 has succeeded on some fronts but not on others. One notable success is the increase in resources for IMF.

[24] World Bank, "Repowering the World Bank for the 21st century", Report of the High-level Commission on Modernization of World Bank Group Governance (October 2009), available from www.worldbank.org.

63. On other issues, there remain questions over the effectiveness of the G20. It has formulated general objectives for macroeconomic policy coordination without setting out the details for implementation. There is no guarantee that the technical designs on international financial regulation requested by the G20 from the Financial Stability Board and IMF will be accepted by all G20 members and by multilateral frameworks with broader country representation. Imperfect as they may be, only representative multilateral bodies have legitimacy. Yet, their enforcement capability has to be strengthened in order to make internationally concerted actions more effective and credible. Improving the effectiveness of official international bodies with enforcement capability should be a p ority shared by all countries.

64. To ensure that the activities of individual agencies and commissions are not in conflict and do not encroach in each other's purviews, there is also a need for a strengthened multilateral coordination mechanism. Such a coordination body could also address the cases of missing international institutions. There have been a variety of proposals regarding the creation of a body along the lines of the United Nations Security Council, the most recent focusing on a global economic coordination council.[25]

V. Role of the United Nations

65. The United Nations system is the principal forum for Governments to discuss and solve global social and environmental problems. It also has a fundamental role to play in global economic governance. At the Conference on the World Financial and Economic Crisis and Its Impact on Development, held in 2009, world leaders resolved to strengthen the role of the United Nations and its Member States in economic and financial affairs, including its coordinating role (see General Assembly resolution 63/303, annex, para. 16). In response, United Nations intergovernmental bodies have been devoting considerable attention to the subject of global economic governance. A major challenge in this discussion will be an agreement providing the United Nations the faculties needed to effectively exercise its role, including a possible global coordination role in economic, financial, social and environmental issues. The General Assembly, at its sixty-fifth session focused its general debate on reaffirming the central role of the United Nations in global governance.

66. At the recently held United Nations Conference on Sustainable Development, world leaders, along with thousands of participants from Governments, the private sector, non-governmental organizations and other groups, came together to shape how the global community can reduce poverty, advance social equity and ensure environmental protection. The outcome of the Conference, entitled "The future we want", acknowledged the vital importance of an inclusive, transparent, reformed, strengthened and effective multilateral system in order to better address the urgent global challenges of sustainable development today; recognized the universality and central role of the United Nations; and reaffirmed the commitment of Member States to promote and strengthen the effectiveness and efficiency of the United Nations system. In this regard, Member States decided to establish a universal

[25] See the recommendations of the Commission of Experts of the President of the General Assembly on reform of the international monetary and financial system (A/63/838), para. 24.

intergovernmental high-level political forum to follow up on the implementation of sustainable development.

67. Looking further ahead, the United Nations system has begun preparations to assist Member States in their deliberations on the contours of the United Nations development agenda post-2015. While the consensus is to keep a clear focus on human development, new challenges (or more pressing issues) will require coherent policy responses at the global, regional and national levels to ensure sustainable development in a way that is consistent with the Rio+20 agreement to initiate the identification of sustainable development goals. The increasing environmental footprint from human activities, rising inequalities, continuous threats to peace and security and rapidly changing demographics will require fundamental transformations in the production and consumption patterns in developed and developing countries. To this effect, improved multilateral coordination mechanisms will be essential in order to build a shared, secure and sustainable future for humanity. The global partnership for development needs to be strengthened with effective systems of accountability and greater clarity on the faculties entrusted in the United Nations bodies to effectively comply with its review and coordination functions.

68. The United Nations provides a forum for policy debate and review and for consensus building. In the 2005 World Summit Outcome, the General Assembly called for further strengthening the role of the Economic and Social Council in this regard (see General Assembly resolution 60/1). The adoption of General Assembly resolution 61/16 was a critical step in strengthening the Council. In that resolution, the Assembly established that the outcome of the high-level segment of the annual ministerial review should be a ministerial declaration to guide the development policy of the United Nations system.

69. The biennial Development Cooperation Forum of the Economic and Social Council has played a key role in assisting countries to adjust to the challenges of the evolving development landscape. As the impact of the global economic crisis continues to be felt, there has been an increased focus on development effectiveness and the contribution of development cooperation to reducing long-term aid dependency. Since its launch in 2007, the Development Cooperation Forum has evolved into a global forum of choice to discuss trends in international development cooperation.

70. There is a need for a strengthened multilateral coordination system to ensure that the activities of individual agencies and commissions are in sync. The reform of the United Nations system should help to facilitate the coordination mechanism to build consistency in specialized areas of work in a world that is increasingly interdependent. The Economic and Social Council is the United Nations organ charged with coordinating the economic and social and related work of the United Nations system. In a recent resolution, adopted on 26 July 2012, the Council requested the Secretary-General to present a report with proposals for strengthening the Council, including its working methods, so it can effectively fulfil its functions.[26] A bold decision to strengthen the Economic and Social Council system would be a step in building greater coherence in the global multilateral system to

[26] The report is being requested within the framework of the review of implementation of General Assembly resolution 61/16 on the strengthening of the Economic and Social Council, during the sixty-seventh session of the General Assembly (E/2012/L.32).

address the challenges posed by the complex global economies and societies of the twenty-first century.

VI. Conclusions

71. The global economy has changed dramatically since the call in 1974 for a New International Economic Order, but imbalances in the areas of international trade, technology transfer and international finance persist. To overcome them and to achieve a global economic order that contributes to balanced development and that manages global interdependence effectively, reforms are needed.

72. The multilateral trade regime has to treat developing countries in a differentiated way to allow the use of subsidies and other mechanisms in support of export industries. Also, it is urgent that it be made consistent with climate policies. Technology transfer is a priority, and existing flexibilities in the Agreement on Trade-Related Aspects of Intellectual Property Rights might be insufficient.

73. There is a more general need for a more development-friendly international technological regime. A publicly led global technology-sharing regime and networks of international technology research centres would be critical steps towards sharing the technology necessary to support development and combat climate change.

74. The international financial regime has to provide space for domestic policymakers to implement capital account regulations and countercyclical macroprudential risk management. Regulatory reforms are also needed at the international level to address global imbalances.

75. To implement this ambitious agenda and to address global challenges effectively, gaps in the institutional landscape of global governance have to be closed, in particular in the areas of environmental governance and international migration. Existing institutions need to become more accountable and representative, and their coordination and cooperation has to be improved.

76. Strengthening the role of the Economic and Social Council in coordinating the economic and social and related work of the United Nations system would help to increase consistency in specialized areas of work to address global challenges in an increasingly interdependent world.